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Canada. Canadian Trade Relations,
Standing Committee on, 1953/54

1953-54

THE SENATE OF CANADA

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Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 4

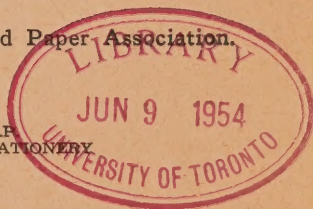
THURSDAY, MAY 27, 1954

The Honourable A. N. McLEAN, Chairman

WITNESS

Mr. R. M. Fowler, President, Canadian Pulp and Paper Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.



CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, Chairman

The Honourable Senators

Baird	Duffus	MacKinnon
Bishop	Euler	McDonald
Blais	Fraser	McKeen
Buchanan	Gouin	McLean
Burchill	*Haig	Nicol
Campbell	Hawkins	Paterson
Crerar	Howard	Petten
Daigle	Kinley	Pirie
Davies	Lambert	Turgeon
Dessureault	*Macdonald	Vaillancourt—(28)

* *ex officio* member.

35 Members.

(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

“That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—“They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them”.

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby “The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all”.

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.”

L. C. MOYER,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, May 27, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 11.00 a.m.

Present: The Honourable Senators McLean, Chairman; Baird, Daigle Euler, Gouin, Haig, Howard, Kinley, Lambert, McDonald, McKeen, Paterson, Turgeon and Vaillancourt—14.

In attendance: the official reporters of the Senate.

Consideration of the Order of Reference of February 23, 1954, was resumed.

Mr. R. M. Fowler, President, Canadian Pulp and Paper Association, was heard.

Further consideration of the order of reference was postponed.

At 12.35 p.m. the Committee adjourned to the call of the Chairman.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Thursday, May 27, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 11 a.m.

Hon. Mr. McLean in the Chair.

The CHAIRMAN: Honourable senators, we will call the meeting to order. As usual, I do not think it necessary to read the resolution with which this committee is charged. As honourable senators know, it is based on Articles II and V of the North Atlantic Treaty.

We are honoured to have with us this morning Mr. R. M. Fowler, President of the Canadian Pulp and Paper Association. This association is one of the most outstanding business organizations in Canada, and by far the larger portion of the products of its industry are sent to countries outside Canada. I believe its exports in paper exceed 90 per cent of its production. The industry has done a great amount of pioneer work in introducing pulp and paper products to many countries of the world. In their broad experience they fully realize the harmful effects of restrictions on trade and commerce such as embargoes, inconvertibility, licences, bulk buying, quotas, etc., especially as they apply throughout the British Empire and NATO countries together with the rest of the free world.

I understand Mr. Fowler, the President of the association, has a brief which he will first present to us, and there will then follow a question period in which all honourable senators may participate and ask Mr. Fowler any questions they have in mind in order to clarify the subject or give further information. I will call on Mr. Fowler.

Mr. R. M. FOWLER (*President, Canadian Pulp and Paper Association*): Mr. Chairman and honourable senators, first may I apologize for coming to you rather late in your hearings. We had hoped I could attend at an earlier date, but for one reason and another that was not possible. I do hope I have not misconceived the purpose of your committee in what you hope to get from me. I might have brought with me some members of the industry, but frankly in our talks, Mr. Chairman, I understood that you wanted a brief from me and a sort of informal chat. I apologize for the length of my brief, because in preparing it rather hurriedly I was not able to condense it as I otherwise might have. It is a personal memorandum in the sense that while I am President of the Canadian Pulp and Paper Association and the Newsprint Association, and therefore in close touch with the facts of the industry and the men in it, I have not cleared the memorandum directly with them or taken it before the board of our association. In that sense it is personal to me. I will not attempt to read the entire brief, but I will go over it and speak to it, and deal with the pulp and paper industry in the Canadian economy.

Since the terms of reference of this Committee refer specifically to Article 2 of the North Atlantic Treaty, it may be interesting to look at Canada's trade in pulp and paper commodities within the NATO group of countries. Since there is little pulp or paper imported into Canada the export figures are more important.

In 1953, 80.4 percent of all Canadian exports went to other countries in the NATO group. For pulp and paper commodities 94 percent went in 1953 to other NATO countries. The break-down is even more significant. In that year 58.7 percent of Canadian exports went to the United States while 88 percent of pulp and paper exports by Canada went to the United States. On the other hand 21.7 percent of all Canadian exports were made to the European members of NATO, while only 6 percent of pulp and paper exports went to the United Kingdom and other European members of the Atlantic Community.

BREAKDOWN OF CANADIAN EXPORT TRADE WITH NATO COUNTRIES

	All Exports		Pulp & Paper Commodities
Trade With:	1952	1953	1953
U.S.	53.6	58.7	88.0
European NATO	24.5	21.7	6.0
Total NATO	78.1	80.4	94.0

These percentages reflect two things—the predominant importance of newsprint and pulps in our exports to the United States, and the curtailment of normal or average imports of pulp and paper commodities by the non-dollar members of the group. The total trade in pulp and paper has grown substantially in volume since before the War, but the emphasis has shifted as a result of the major upsurge of U.S. demand and the relatively low priority accorded by other countries to pulp and paper products in the allocation of dollars that your Chairman has referred to. Recently there has been some indication that the emphasis is shifting back, and that should be interesting. There are one or two instances of that later on in the memorandum. U.S. demand for newsprint is still rising but at a more gradual rate than in the last eight years and U.S. demand for Canadian pulps has fallen from its peak in 1951 and, with the rapid expansion of U.S. domestic pulp capacity, seems unlikely to grow very rapidly in the near future. On the other hand, as dollars are becoming more plentiful in the European members of NATO and as their economies improve, wartime rationing and currency restrictions are being gradually relaxed and even commodities that have had a low priority for dollar allocations are beginning to get dollars if buyers wish to obtain them. This does not necessarily mean that more pulp and paper will be bought by non-dollar countries from Canada—these Canadian products may or may not be competitive in these markets and that is a matter to be discussed later. But at least the opportunity is there as artificial restrictions in the importing countries are removed, and that is not the situation we have had over the past eight years.

There is a possibility that the discussion of exports—which I know is your major interest in this committee—will distort the picture of Canada's pulp and paper industry which this Committee may form. The industry is divided into two main classes, between those commodities (such as newsprint and pulps) which generally move in world trade without encountering tariff barriers and all other commodities (including fine papers, paperboard, wrapping papers and specialties) which in the markets of the world generally face substantial tariff walls.

The latter group are predominantly industries to supply the domestic needs of Canada and have enjoyed only a small percentage of exports mainly with other Commonwealth countries; but this margin over domestic requirements will later be shown in this memorandum to have an important significance today. For the "free trade" group of newsprint and pulps—about 92 or 93 per cent of our newsprint is exported—these branches are predominantly export

industries and provide a major percentage of Canada's earnings in other countries. The trading problems of the two groups are naturally different and will, as much as possible, be discussed separately, but before entering that discussion, I want to touch briefly on the place of the industry in our domestic economy.

The next paragraph of the brief is one that I have written so many times, that it almost is boring, but if you have not heard this before, it will reveal to you the place that Canada's pulp and paper industry plays in the Canadian economy.

For the industry as a whole, the contribution to our economy is a major one and a few statistics will indicate this clearly. There are 130 pulp and paper mills in Canada, employing nearly 68,000 regular workers (apart from seasonal or part time workers in the woods) and producing goods worth some \$1.1 billion to \$1.2 billion a year. The industry pays to mill workers and to woods workers some \$368 million dollars annually, and the transportation bill is \$200 million a year. Among Canadian industries pulp and paper ranks first in capital invested, first in employment, first in total wages paid, first in value of production, and first in value of exports. We calculate, directly and indirectly, pulp and paper operations generate one of every eight dollars of the income of every Canadian.

In the export field, I have already described briefly the overall pattern of pulp and paper exports to the United States and other NATO countries. It should be noted, too, that in the export of goods from Canada, the pulp and paper industry accounts for 15 per cent of all Canadian exports by value and 23 per cent of all commodity exports to the United States—very nearly one in every four of the trading dollars with the United States. Thus, the role of the Canadian pulp and paper industry in Canada's foreign trade picture is large indeed. But if we are to understand this role and, perhaps more important, if we are to consider what this role can become in the future, it will be helpful to begin by tracing the development of the industry to its present position.

The Trend of Pulp & Paper Demand and the Forest Assets of Canada

Taking a look first at the very long-run trend of World demand for paper products, probably the best measure is the trend of World wood-pulp production, since wood-pulp is, almost universally, the basic raw material. In 1913, this production figure was just under 9 million tons, against a figure of about 36½ million tons in 1952. In this period production—and therefore demand—for paper products has increased about fourfold. It is interesting to note that this is the period in which the Canadian pulp and paper industry grew to world prominence: its production in 1952 was 10 times as large as in 1913 and, in 1952, its production was roughly 25 per cent of the world total.

There are two points about this growth. First, there were great changes in the location of world production within the period, and secondly, the overall growth of production and demand—particularly if it is to continue—raises the question of the adequacy of the World's forest—or more accurately, fibrous—resources.

On the first point—the location of production—I have just mentioned the tenfold increase in Canadian production in the forty years 1913-52. U.S. production was 6 times greater in the latter year. The U.S. is the world's largest producer of woodpulp, with 40 per cent of world total in 1952. These two countries—Canada and the U.S.—now account for about $\frac{3}{4}$ of world wood-pulp production. On the other hand, wood-pulp production in the 3 Scandinavian

countries, Finland, Norway and Sweden, was only $1\frac{3}{4}$ times greater in 1952 than in 1913, and in all other countries rose by just 60 per cent over the 40 years under review.

The point which stands out is the pronounced shift of the principal location of pulp and paper production to North America. There are three main reasons for this.

(a) Demand for pulp and paper products in North America:

First, the shift occurred because of the relative growth and size of the demand for pulp and paper products on this continent and particularly in the U.S. The North American market now uses annually about 375 lbs. of paper products per person—400 lbs. per capita in the U.S. and 250 lbs. per capita in Canada. For the rest of the world, the figure is about 15 lbs. per capita per year. Of course, this average is deceptive: in many countries consumption is only a fraction of even this low average figure—I think the consumption in India is something of the order of one pound per person per annum—but in the highest-consumption overseas countries use per person probably does not exceed 150 lbs., or $\frac{2}{3}$ of the Canadian figure. The action of demand on production has been a large factor in the shift.

(b) Effects of World War II on world pulp and paper production:

Secondly, the shift was accelerated by the effects of War II upon the European paper industries—principally the industries of the present NATO countries. Taking newsprint as a case in point, in 1935-9 the 12 NATO countries (i.e. excluding Canada and the U.S.) were supplied with 2,150,000 tons of newsprint, most of it from domestic or other European sources (see Table below). By 1946, the supply figure was down to 850,000 tons, a drop of 60 per cent. Even by 1953, the supply figure had only come back up to 1.6 million tons, still 25% below prewar.

That led to all the rationing controls, restrictions on publishers, on the use of newsprint. It led to very severe curtailment of packaging and other uses. I might just make one point here, that in some ways the demand for pulp and paper generally seems to be a reflection of economic activity, and in another way it seems to be a creator of better economic activity. In other words, unless you have the necessary papers, packaging materials, and the like, which enable you to enjoy a higher standard of living, you cannot have it. Nevertheless, when you have a greater income and a greater opportunity to expand, that naturally results in a higher demand for pulp and paper. The actual demand seems to be not one that is related directly to normal factors within an industry itself, but more particularly demand seems to tie itself in to the rate of economic activity generally. For example, they are not interested really in the boxes but in the things that are put in the boxes. It is a service commodity in that sense.

NEWSPRINT SUPPLY: EUROPEAN NATO COUNTRIES
(including Turkey and Greece)

	1935-9 Ave	1946	1953
Total Supply	2,150,000	845,000	1,612,000
Index	100	40	75
Supply From:			
Domestic and Europe	1,802,000	726,000	1,442,000
Index	100	40*	80
North America	348,000	119,000	170,000
Index	100	34	49

* Index is actually 40.2.

Thus there was not only a very severe drop between prewar and 1946 in newsprint supplies to European NATO countries but the effect is still being felt in 1953.

Now, briefly, here is the contrast presented by the North American figures. In 1935-9, Canadian and U.S. supply averaged roughly $3\frac{3}{4}$ million tons, again mostly from domestic (North American) sources. In 1946, supply for the two countries totalled $4\frac{1}{2}$ million tons, up 20 per cent. (Actually all of this increase had occurred between 1945 and 1946; throughout the war, supply declined slightly.) By 1953, supply was up almost to $6\frac{1}{2}$ million tons, almost 75% over prewar.

So that in very rough terms, in 1953, the rest of the NATO countries were down 25 per cent against their pre-war yardstick, and we here on this continent were up 75 per cent over ours.

NEWSPRINT SUPPLY: CANADA AND U.S.

	1935-9 Ave	1946	1953
Total Supply	3,742,480	4,578,601	6,481,034
Index	100	122	173
<i>Supply From:</i>			
North America ..	3,485,546	4,565,121	6,316,937
Index	100	131	181
Others*	256,934	13,480	164,097
Index	100	5	64

* All for U.S.; No newsprint imports into Canada.

I will return to the matter of the post-war demand and supply situation later. Here, I have been citing prewar, 1946 and 1953 figures for newsprint as a means of illustrating the effects on the overseas NATO group of wartime damage and economic dislocation. Of course, newsprint is not in all respects typical of the other pulp and paper products, but the general pattern is the same. Woodpulp production for example, in 1937 totalled 12.5 million tons for Europe, in 1946 totalled 6.2 million tons and by 1952 had reached 8.8 million tons, about 70 per cent of prewar. For North America, the figures were 11.5 million tons in 1937, 16.9 million tons in 1946 and for 1952 25.1 million tons, an increase of 48 per cent—I think that figure must be wrong; it is more than that. I think it is 148 per cent—over prewar. Notice, too, that European woodpulp production in 1937 was 1 million tons more than North American production (12.5 vs. 11.5 million tons); in 1952 North American production was almost 3 times as great as that of Europe (25.1 vs. 8.8 million tons).

(c) Forestry Resources: North America and Elsewhere

The third and final factor underlying the shift in world woodpulp production has to do with forest resources. I have mentioned that pulp and paper production in North America was impeded during the war period but the industry was not physically damaged; secondly, we experienced a remarkable post-war upsurge of demand which could assert itself without currency restraints but basic to all this was the fact that we had on this continent the resources economically available to permit the expansion.

It is probably not true of any of the important NATO or European producers that their lack of forest resources imposed an absolute ceiling on their expansion. We have seen that prewar these forests supported a larger production than they have been called upon to do. But there was extensive wartime damage done to European forests, partly because of physical destruction and particularly due to heavy new demands for wood for various military purposes and for fuelwood in the scarcity of conventional fuels.

You all know, of course, they actually used wood for the purpose of fuel to move motor cars. They had special fuel-burning devices, great big tanks on the back of motor cars. This was the case in Germany and Sweden and the Scandinavian countries generally. In wartime there was a special temporary demand which led to overcutting in the forests.

Add to this the heavy post-war reconstruction needs and it becomes obvious that wood requirements for pulp and paper, if indeed they could be met from areas which have been seriously over-cut, had to compete with other very high priority uses.

There were also, of course, problems related to the expanding use of the forests resources here in North America: there were labour shortages in the early post-war years; great areas which had heretofore been inaccessible had to be opened up for logging. But basically there was no doubt that our continental forest reserves could accommodate the growing market for wood products and so the westward shift of pulp production, stimulated by demand and particularly accelerated by the post-war upsurge, could take place.

Canadian Forest Resources

Against the rising trend of North American and world demand, I raised the question earlier as to the present and future adequacy of resources. Let us concentrate now on Canada's forest potential.

CANADIAN FOREST STATISTICS

Accessible Forests	Square Miles	% of Production	% of Total
Presently Occupied	318,000	39	21
Unoccupied	260,000	31	18
Total Accessible	578,000	70	39
Inaccessible	249,000	30	17
Total Productive	827,000	100	56
Non-Productive	659,000		44
Total Forest Area	1,486,000		100

Source: Department of Resources and Development

First, as to area, the total covered by productive forests—those which can yield tree crops—is 827,000 square miles. Some 578,000 square miles of this is now classed as accessible, that is, economically available for use. One of our reserves for expansion is the difference between these two figures: 249,000 square miles of productive forest land presently inaccessible by reason of location or, what is much the same thing, inaccessible under the existing economics of the market. This area makes up 30 percent of our total productive forests.

Secondly, within the 578,000 square mile accessible area, latest government statistics show only 318,000 square miles as presently occupied. The difference between the figures again constitutes a reserve available for expansion: 260,000 square miles of productive forest land—31 percent of the productive area—is already economically accessible but still unoccupied and therefore not in use.

Together these two areas account for 61 percent of the productive forests; this means, alternatively, that we now use only 39 percent of the productive area to supply present wood requirements for all purposes.

Apart from the expansion possible from a more extensive cultivation of our forests, more intensive cultivation on the forest lands now in use can bring much higher crop yields. Economically, this is the most attractive

way in which to meet our growing needs since it cuts down on the distance which the wood must be moved where distance costs money in terms of access roads, fire protection, insect and pest control and labour procurement. Scientifically, this way is best because it means a more efficient utilization of our forest resources and incidentally, means better forests. Physically, more intensive cultivation also offers the greatest potential for expansion. Our present annual depletion works out at about $1/8$ of a cord per acre on the land now in use (the 318,000 square miles mentioned above): this is first choice land and it can, I am told, be brought to an average yield of twice that figure.

By better application of the knowledge that is coming fast on the way in which to grow more wood.

Here are some of the ways in which this higher yield will be attained; in varying degree, all are under way:

(a) Better knowledge of our forests. We do not have an adequate forest inventory in Canada although in most provinces the work is well along. But we need to know more about our forests, rates of growth and depletion, soil capacity, and so on. Among other things, this will help our reforestation and afforestation work.

(b) Better forest management, which means a greater application of our growing silvicultural knowledge: improved cutting techniques, selective cutting, thinning our over-mature stands. There are great areas of Canadian forest that are not growing at all; they have reached a mature stage when they tend to deteriorate and decay, and become subject to fire, insects and disease. Actually, we would grow much more wood if those over-mature areas could be harvested and properly handled as tree-growing areas.

(c) Better fire and insect control: these too are coming with our increasing scientific knowledge and more mechanisation in the woods. Some of you know of the experiments being carried on in the Maritimes by way of spraying against the spruce budworm, which is being carried on as a partnership effort between the Dominion, the province of New Brunswick and the pulp and paper companies in that area. It is a big operation, being carried on over thousands of square miles, and it now looks as though they are stopping the menace of the spruce budworm.

(d) The use of more species: great strides have been made here in recent years in the use of hardwoods, for example, and of certain under-used species which had grown slowly to over-maturity, specially subject to fire and insect damage. The nearby Hawkesbury mill has been turned over to the use of hardwood now; also, poplar which was a weed tree, is now being used extensively in the paper making process.

We in Canada have much to learn in the use and protection of our forests but the knowledge is coming fast. We can already confidently count on maintaining our present cut in perpetuity and we have the resources and methods at hand to increase materially the wood supply to meet increasing demand.

To this I would add one further point. Canada will always have high labour costs and labour is the major element in wood costs—and high transportation costs, where labour is again a major factor.

We want to have high labour standards but we must be careful to recognize that other producing countries have lower labour rates and we must compensate by mechanical and productive efficiency if we are to remain competitive in world markets.

Post-War Trading Developments:

During the years of World War II, there was added to the steady long-term rise in demand for pulp and paper products a large extra demand caused by the wartime economic boom. This led to shortages of pulp and paper products and made necessary restrictive rationing in all the allied countries. Canadian producers were faced with shortage of labour in the mills and in the woods, were unable to obtain steel and machinery with which to expand their capacities, and were called upon to supply essential requirements of allied countries whose normal sources of supply had been cut off by the war.

In 1945 and 1946, wartime controls were removed while demand was still far in excess of supply and a substantial pent-up demand was released on the producers before they had any possibility of increasing their capacities to meet it. It is a statistical fact that customers of the Canadian pulp and paper industry have been provided with more products every year since 1945 than they had ever received before. Capacity was increased in all branches of the industry as quickly as possible. But the totals made available were not as great as consumers wished to buy and, in this special sense, there were "shortages" of pulp and paper, on this continent and throughout the world, almost continuously from 1945 to 1951. These shortages led to the familiar results of a scramble for supplies, quotas by individual mills, back-logs of orders and some black or gray markets in newsprint and other commodities. For a politically explosive commodity such as newsprint, the shortages also led to numerous government inquiries—particularly in the United States—which produced few results except misunderstanding of the real causes of the situation and some international friction. Before the recommendations could be implemented the problem they sought to isolate was satisfactorily solved by normal commercial actions.

The producers of pulp and paper products throughout the world—like the producers of most other commodities—are in business to make and sell as much as they can. Faced with an unsatisfied demand the Canadian industry quickly expanded its capacity to meet it; both by improvements at existing mills and by the building of new mills. The record is similar for all branches of the industry—pulp, fine papers, wrapping papers, paperboard and specialties—but the figures for newsprint can be taken as typical of the process.

Capacity to produce newsprint in Canada, increased from slightly under 4,650,000 tons in 1946 to 5,900,000 tons in 1954—an increase of 1,250,000 tons. These additions to Canadian newsprint capacity in seven or eight years total more than the entire newsprint capacity of the United States at any time in the period. The new capacity came partly from new mills, partly from the installation of new machines but mainly from the mechanical improvement and speeding-up of existing machines. This was the quickest and by far the cheapest method for the creation of new capacity and it is a process that is still going on and can be continued for many years to come provided there is demand to bring such new capacity into existence.

I have often been asked whether or not we are running these machines so fast that they will burn up or wear out. I do not think that is so. The point is that a newsprint machine is really not a machine, but a series of machines. If for instance, the drying section, which is one stage, holds up the amount that can be run through, you put in more dryers and that bottleneck is corrected; but you immediately create another bottleneck or limiting factor somewhere else. It may be that the grinding capacity of the machine is not sufficient to grind enough pulp; you then find more grinders. Next you move on to the drive, which is an expensive operation, and you attain a higher rate of speed. But I would say there is no indication that there is

any overrunning of these machines. In fact, there is a constant upward movement of technical knowledge which is changing the whole character of the industry from what it was twenty years ago.

The rate of increase of productive capacity has been faster than the rate of increase in demand. The war-induced shortages were steadily reduced year after year until today these shortages have disappeared. For newsprint—as for all the other pulp and paper products—no customer of a Canadian mill is unable to obtain prompt delivery of his requirements and if he needs any reasonable extra amount he can get it without having to wait very long for it. All branches of the industry are still operating at high levels, not far removed from their expanded capacities, but there is now a small surplus or “cushion” available to meet new and extra demands should they arise. Again taking newsprint as an example, the mills have averaged in the past four months of 1954 almost exactly 100 percent of their 1954 capacity. But for years when demand was pressing they have operated at 102 or 103 percent of their rated annual capacity and they could do so now, if demand called for it.

You may be surprised at an industry which operates above capacity. The explanation is that the capacity figure is a rated capacity based on proven past performance, and there is always a time lag between rated capacity and actual capacity, when the machines are being improved.

Hon. Mr. EULER: Is that capacity on a twenty-four hour basis?

Mr. FOWLER: That is actually the capacity by machines; in other words, it runs on a twenty-four hour basis on an average of six days a week. I am glad you raised that point, Senator Euler, because in the West some operations are on a seven-day week basis, and our capacity figures have been changed to take account of that fact. What we have done is take the actual machine records and the highest level attained for a day or a week on a particular machine, and give the maximum total for that machine. If required the mills could provide another 200,000 tons of newsprint beyond the rate their customers are now asking. For the next two years newsprint producers on this continent have announced additions to capacity which total 450,000 tons. These additions will comfortably exceed the historical long-term rate of growth of newsprint demand in Canada and the United States which has averaged about 150,000 tons a year, and will also provide additional supplies to other markets if they are wanted, as I very much hope they will be.

This is a picture of an industry emerging from the abnormal period of excess demand following the war and entering a new and more normal trading period. Its present operating rate is high but it is no longer unable to supply in full the demands that are made upon it. It is still growing, but the pressures causing growth in the last seven or eight years are now less heavy and the rate of growth is unlikely to be quite as fast as it has been. But the prospects are that capacity will increase at least as fast as demand and be able to take care of reasonable increases in demand should these fluctuations arise.

Further Trends in Overseas Markets:

You will have seen from the foregoing something of the efforts of the Canadian pulp and paper producers in catching up with the back-log of demand for their products. Most of these demands came from North American sources: overseas demand actually declined between 1947 and 1950, pinched off slowly by growing exchange stringencies. In the former year, overseas exports of newsprint, other grades of paper and paperboard and woodpulp totalled, in 1947, about 1,030,000 tons; by 1950, the figure was down to 387,000 tons.

Since the 1950 low there has been a gradual improvement in overseas buying power. Again, newsprint affords an example of the recovery process. In 1953, newsprint exports totalled 473,000 tons, up from a low of 207,000 tons in 1950. Both of the intervening years—1951 and 1952—showed gradual

improvement, but the fact is we are still far short of the export volume which we once had and further still short of the volume which we know is or will be required by the overseas markets. Between 1945 and 1947, before monetary difficulties hardened into an international problem, the Canadian newsprint industry had an average export volume of nearly 700,000 tons. Between 1935 and 1939 our overseas newsprint exports had averaged 735,000 tons annually. Our present exports, therefore, are running at about 65 per cent of the pre-war level and, even more important, have not yet been called upon to supply a proportion of the long retarded growth of overseas demand. Pre-war, we exported 22 per cent of our newsprint production; today, the figure is just over 8 per cent—of a much larger production, of course. Probably it is unreasonable to assume that we might have hoped to maintain the pre-war export percentage had the war not intervened. This would imply that demand in the overseas markets would have paralleled the great post-war upsurge here in North America. But had we been called upon to maintain the proportion, we would now be exporting about 1½ million tons of newsprint annually, instead of something under 500,000 tons as at present.

As it was, a speedier return of our overseas exports in either absolute or relative volume would probably have taxed our ability to expand. In the circumstances of sustained full employment and a booming capital investment program, I doubt very much if we could have raised more capital and grown fast enough to take up a growth in overseas markets equivalent to the rate of growth in the North American markets. In that sense, the retarded overseas demand afforded us an opportunity to meet the North American demand back-log and to strengthen and modernize our industry before the great suppressed or latent demands from these other countries made their call upon our resources.

It now seems, speaking of the general recovery of overseas trade, that we shall proceed toward recovering and increasing our export volume by a gradual easing of the currency and other restrictions which have hemmed us in these past six years. This is a process which has been going on not undetected but without a great deal of fanfare since about 1950 or 1951 and the implications of it continuing are most interesting.

In the next paragraph I make a suggestion concerning convertibility. We talk much about a return to convertibility but I do not think, in one sense, we are ever going to have convertibility and in another sense we have it today. The process seems to be a piecemeal process where one by one the restrictions are being relaxed, more goods are able to be bought more freely and dollars are being provided for them, and in that sense we are getting a degree of convertibility in fact if not in name. There is perhaps in that something that is helpful.

Under this gradual and piecemeal approach to freeing trade, we are already moving much closer to the convertibility of currencies. If the process continues—and I doubt that it has much farther to go—we will have convertibility in fact possibly before we have it in name. Increasingly we find commodities which can be traded internationally free of restrictive regulations, we find others which are still under such regulations moving in what would probably be their normal commercial volume even if such regulations did not exist. In short, for a growing list of items, demands are being fully met.

I would suggest that there is nothing especially unhealthy about these developments. Undoubtedly, they give rise to individual problems and frustrations. But in the broad sweep of international trade, I suspect that the gradual approach to convertibility has positive benefits. We will probably thus avoid the inflationary jolt that a sudden return to convertibility by decree would

bring. If the gradual transition proceeds smoothly, we can also hope to avoid or minimize the unsettling effects of a sudden and large scale speculation in currencies.

Finally, we will move toward a greater volume of international trade within a general framework of balanced supply and demand, but this will be a more competitive market situation. As the buying power returns to the export markets, there will be capacity available to supply it.

The lesson in this for Canada, with our reliance upon export trade, is that we will obtain our share of this resurgent foreign trade only to the extent which we can hold our costs in line with our increasingly active foreign competitors. I was tempted to put something in here to the effect that sometimes we are a little prone to talk about our great unbounded natural resources. We have them and we are lucky to have them, but there are other countries in the world with great resources too, even in this natural-resource field of pulp and paper, and they have gone through much the same process as we have and they are entering again into the world markets, as we are, and therefore it is most important that our costs be kept in line with the increasingly active foreign competitors that we have.

Importance of Increased Exports and Problems Thereof:

The Canadian pulp and paper industry, although it is operating at a high rate, has now some surplus capacity available. Its markets in North America are likely to grow steadily as population in Canada and the United States continues to increase. There are signs of improvement in the effective buying power of many overseas markets. It is obvious that it would be desirable to apply presently available capacity and new productive power that can be brought into existence toward meeting the growing demand for pulp and paper products in the markets of the world. This expansion of international trade is in the interests of the Canadian economy but there are problems to be solved before this can be brought about. As the problems are somewhat different for the "tariff-protected" and the "free trade" commodities, they will be discussed separately, so I will divide them into two parts.

(a) Tariff Protected Commodities (Fine Papers, Paperboard, Wrapping Papers and Specialties):

These commodities are made in Canada mainly for the domestic market, as a result of the high tariff barriers imposed against them by most countries in the world. The domestic market for all these products is growing as Canada's population and economic activity increase. For example, domestic shipments of fine papers have increased from 96,000 tons in 1938 to 208,000 tons in 1953. Productive capacity in all these branches of the industry has increased and will continue to increase so as to supply Canadian needs with a wide variety of products.

For these branches of the industry the problem of the mills in their domestic business is the problem of making many grades in comparatively short runs. These are not standard commodities such as newsprint and pulps. They are varied groups of commodities which have no hope of getting into the mass market of the United States because of the U.S. tariff and must rely mainly on the relatively small and scattered Canadian market. For example, the fine paper mills in Canada produce nearly 500 different products; the wrapping paper mills make over 100 different grades. Undoubtedly these short runs add to the costs, in comparison with mills and machines that can run continuously on one or a few grades. In addition, Canadian distances increase the transportation costs for these commodities to reach the scattered Canadian market. Nevertheless for grades for which there is a substantial volume of Canadian demand, the mills

have been able to supply domestic consumers with products comparable in quality and in price with those supplied to domestic consumers in the large volume markets of the United States and the United Kingdom.

That is to say that in the large volume markets of the United States and the United Kingdom that price comparison is arrived at without taking into account the duty. It is a dollar for dollar comparison of prices on grades of fine paper in Canada and in the United States and the Canadian price today is equivalent to, and in many cases below, the price of comparable grades of fine papers to American consumers in United States dollars. The importance of the Canadian tariff on these grades is that it protects against the invasion of the market by the over-run on long-run production by foreign mass-volume mills and also it encourages the Canadian mills to produce new lines on which the initial costs of production are always higher. The steady increase in recent years in the variety of fine papers, wrapping papers, paperboards and specialties would not have occurred had there not been a Canadian tariff on these grades.

For these branches of the industry the volume of export business has not been large—seldom running higher than 10 or 15 per cent of the total production. It has, however, been important and is likely to be increasingly important in the years ahead. With the large increases in all costs of production that have taken place, the break-even points—as I suppose, in most Canadian industries—is much higher today than it was before the war. For many producers, an extra 5 or 10 per cent in volume will make the difference between bare subsistence and good profits. With capacity in all branches of the industry now exceeding domestic demands, there is available an ability to produce for export markets, and if these sales can be made it will materially aid the present soundness and the future growth of these branches of the industry.

Unfortunately the current picture in the overseas market is not encouraging. Total production this year for most of these commodities is running slightly ahead of the figures for last year, but the increase is entirely in the domestic part of the business and exports have declined. For example, using the first quarter of 1952 as a base for comparison, paperboard exports were off about 62 per cent in the first quarter of 1954; wrapping paper exports were down 43 per cent and fine papers down 37 per cent.

No doubt part of the solution can be provided by the manufacturers themselves. They must adapt themselves to the changed climate in export markets. Until very recently there was little real possibility of making substantial sales of pulp and paper products in overseas countries because of the stringent rationing and currency controls they imposed against imports. Moreover there was little incentive for mills to seek new markets overseas; while the post-war shortages in the domestic market continued, with mills running at capacity, there was little to compel a seller who had nothing to sell to seek buyers who were unable to buy. With the increase in capacity beyond domestic demand there is now something to sell and with the gradual removal of buying restrictions in other countries, overseas buyers are becoming more able to buy. In short, this is a problem of salesmanship, which must be more vigorous and ingenious than it has been if Canadian exporters are to be successful in competition with producers from other exporting countries who have had much the same post-war history as have our own mills.

But the limits of what can be done in export markets by the producers of tariff-protected commodities are narrowly set by those tariffs. The whole question of tariff revision is a large and complicated problem far beyond the scope of this memorandum. In general it can perhaps be said that present trade patterns are largely determined by existing tariffs; that unilateral tariff

reduction by Canada in pulp and paper products would be a fruitless exercise in giving away something for nothing; but that expanded export trade in products now facing tariff barriers would be advantageous to the Canadian economy. The major contribution of the pulp and paper industry to Canadian international trade has already been quoted. This comes almost entirely from the tariff-free items of newsprint and pulps. However, these commodities have no special attributes which make them peculiarly advantageous for Canadian manufacture. The makers of other products are equally skilled, equally efficient, and equally able to supply products that will meet competition from producers in other countries.

Perhaps there is one particular problem connected with tariff barriers and customs administration in the United States that is worth mentioning. It concerns papers for the publication of magazines—usually machine-coated paper, (i.e. paper that is finished with a coating applied during the manufacture of the paper rather than being coated in a secondary operation). Since June 1951 following the tariff negotiations at Torquay this paper, when used by publishers, enters Canada duty free. In addition, all printed magazines enter Canada without duty. On the other hand, this paper when made in Canada faces a tariff duty equivalent to roughly 27 percent in entering the United States. No doubt there could be lengthy debate as to whether, if American paper enters Canada duty free, there should be similar treatment given to Canadian magazine paper entering the U.S. market. But there can be little argument against the proposition that Canada should be able to sell magazine paper to U.S. publishers for their Canadian circulation without payment of U.S. duties when the printed magazines are admitted to Canada duty-free. In fact this is Canadian consumption of paper, even though it is printed in the United States. As a matter of fact, the law permits this; an American publisher is entitled to a drawback of all, or almost all, the duty paid on imports if the paper is subsequently re-exported. But in practice it does not work out this way because of U.S. tariff administration and "red tape". Under their administrative rules, a shipment is given a tentative or temporary valuation for duty purposes when it crosses the border. There is no real question as to the rate of duty but the tentative valuation is subject to appeal or revision for two years after the date of entry. Under another administrative rule, no application for drawback can be made until the rate of duty has become final, and no way has been discovered to make the rate final until the lapse of the two-year waiting period. In the result, a U.S. publisher who is willing to buy Canadian magazine paper for printing his Canadian circulation—several actually started to try it in quite sizeable volume—is faced with having 27 percent of the price tied up for nearly three years before he can get the drawback to which he is legally entitled. One of the larger publishers at the moment has \$85,000 worth of drawback duty tied up, and is waiting his three-year period to get it back. In practice this portion of the domestic Canadian market for paper is closed to Canadian producers. And it is a substantial market. We calculate that the tonnage of paper imported into Canada in the form of printed magazines amounts to 40,000 to 50,000 tons a year. For three leading publications using a known grade of paper, the tonnage involved is about 19,500 tons per year. The total tonnage of such paper now manufactured in Canada amounts to about 21,500 tons annually; so that, if this one situation could be corrected, there would immediately be an opportunity to expand this branch of the industry by 90 percent without any change in tariff levels between the two countries.

The broader question of tariff revision between Canada and the United States is a more complex one. We are today running a trade deficit of about \$450 millions which is only being supplied by the current inflow of U.S. capital to Canada. Should this investment decline or cease we would immediately be

faced with a serious problem in our balance of payments with the U.S. There would be only two solutions open to us; we would either have to buy less from the U.S. or sell more. There is no doubt that a reimposition of import controls and quotas on American goods would impede our economic expansion and lower our standards of living and it would also be a serious blow to the expansion of multilateral world trade. I suggest that the constructive solution is to find ways in which we can expand the flow of Canadian goods to the United States market so as to balance our trade at a higher rather than at a lower level. In any such development, it seems to be inevitable that the natural resource industries of Canada—and particularly the pulp and paper industry which is the largest of them—should make a major contribution to this expansion of trade. We have the forest resources, the necessary hydro-electric power, and the skill and experience to do so. And I believe that this can be done without serious dislocation and damage to the existing paper industry in the United States. I can best make this point by quoting from a speech I made last November to the National Foreign Trade Convention in New York, when I said:

"I think there is far too much talk about free trade between Canada and the United States. That goal, however desirable it may have been in the past or may still be, is probably unrealistic and unattainable. We have to face the facts of history and the rights and interests that have been built on those facts. Both Canada and the United States have had tariffs for more than 75 years and they cannot be suddenly swept away without great damage and dislocation in both countries.

"But I urge that we should approach the problems of tariff reduction with more flexibility of mind than we have in the past. There is nothing sacred about a tariff rate. There is more dynamism and adaptability in American and Canadian industry than we usually give credit for, and an industry can often absorb the shock of a tariff change and be better off than it was before. There are many misconceptions about the true effect of past tariff changes.

"I will illustrate again from the paper industry. One of the most frequent complaints of my friends in the American pulp and paper industry has to do with the removal of the U.S. tariff on newsprint in 1911. They say, 'Look what happened to the American newsprint industry when tariffs were removed?' Well, what did happen? The impact on the U.S. newsprint mills was neither immediate nor catastrophic. Capacity to produce newsprint in the United States and shipments of newsprint by U.S. mills continued to expand for fifteen years after 1911. It was not until 1935—twenty-four years after the removal of the tariff—that domestic capacity in the U.S. fell below what it was in 1911 and the causes of that shrinkage had nothing to do with tariffs. Now it is true that newsprint demand in the United States was steeply rising and the percentage of supply from Canada rose steadily after the removal of the tariff. We had natural advantages of ample wood and water-power which enabled us to meet expanding United States demands for newsprint. We built a great industry which today provides one out of every four American dollars used by Canadians to buy American goods. Meanwhile, the U.S. pulp and paper industry, with typical vigour and ingenuity, has emphasized many other, and new, types of pulp and paper production and has also grown enormously to meet the rising needs of the American market.

"I wonder if this example may not provide a key for the solution of some of the problems of trade balances between Canada and the United States. Your American population and your economic activity are increasing rapidly and I, for one, believe they will continue to increase. You have by no means reached the end of your dynamic growth. Apparently, you will need supplies of many commodities to maintain the standards of living you wish to have for your

increasing population. Why not make a selective approach to the problems of tariff revision? Could we not look for those commodities for which there is a growing market in the United States and allow goods to enter from Canada to provide for the increase in your consumption? We do not ask to take markets away from your producers, but instead of attempting to provide for increasing demands of your people by developing new and costly methods of expanding your capacity, could you not let those industries for which Canada has a natural advantage provide for your growth in demand. Perhaps we could make some products you need from our ample supplies of aluminum and base metals. Perhaps the many new chemicals that are obtainable from our Alberta oil and gas could, if tariffs are changed, find and make new markets in this country. I know too little about these industries to be able to say. But I do believe that by breaking down the tariff problem into smaller components, by selectivity as to the items that are changed, and with much more flexibility of mind than we have yet shown, it should be possible to build up Canadian exports to the United States to provide goods that American consumers will need and to do so without damage to existing American industries."

(b) Free Trade Commodities (Newsprint and Pulp)

This second branch of our export trade in pulp and paper products can be covered more briefly. It is an established international trade that is generally freed from most of the complicated problems of tariff revision. It is now a major part of Canada's export trade and is likely to grow steadily in the years ahead. I will only mention two or three particular problems connected with it.

First, as to trade with United States. In newsprint we now provide 80 per cent of U.S. requirements—a total of nearly 5 million tons a year, valued at nearly \$600 million. That is, four out of every five pages of newspapers printed in the United States come from Canada.

Hon. Mr. EULER: What percentage of the 80 per cent of our production goes to American consumption?

Mr. FOWLER: It happens to be almost exactly the same thing. It is within a percentage point or two. Eighty-three or eighty-four per cent of our production goes to the United States, and this provides about 80 per cent of their requirements. Relations between Canadian producers and U.S. consumers are today excellent. They have not always been, but they are today.

American publishers, I believe, regard Canada as a reliable and satisfactory source of supply for the major part of their requirements. It is true that some American politicians occasionally express concern about what they call the "dependence" of the U.S. on a "foreign source of supply" for their press. But I do not believe this concern is shared by American publishers, who buy the product and can assess the situation from personal knowledge.

The publishers themselves have estimated that the consumption of newsprint in the United States and Canada will continue to increase and will by 1960 total 7,950,000 tons. If we deduct Canadian consumption and assume that the present 80 per cent of U.S. supply will continue to come from Canada the resulting estimate of the U.S. market for Canadian newsprint in 1960 is close to 6,000,000 tons. That is an increase from present levels of about 1,000,000 tons per year which we can reasonably expect.

There is only one possible danger. Various official inquiries held in the United States during the period of post-war newsprint shortages have come up with proposals for the artificial stimulation of new newsprint mills with government financing and special tax concessions, and also for the development of new sources of fibre supply which have not yet been proved to be satisfactory for making newsprint.

Hon. Mr. HOWARD: Is the International Paper Company's new mill in the southern part of the United States making any newsprint?

Mr. FOWLER: No. I think that a new mill was built in Natchez to make dissolving pulp for artificial fibres. Various southern mills also make great quantities of packaging material, cartons and boxes and the like.

Hon. Mr. BAIRD: What about the mill in Coldwater in Tennessee?

Mr. FOWLER: As to the mills in the south that make newsprint, there is the Southland Mill in Texas.

Hon. Mr. BAIRD: That mill is using southern pine?

Mr. FOWLER: Yes. There is a new mill at Coosa River in Alabama. That is the one in which the Kimberley-Clark people are interested. Then there is the new Bowaters mill in Tennessee which will be making pulp and newsprint from southern pine.

Hon. Mr. BAIRD: That will not be a predominant factor?

Mr. FOWLER: As far as I can see, the economic growth of the southern United States calls for this kind of production. It is there and easy to deliver, they have the raw materials, and it is a natural, I think. But there is, as I say, this result of some of the enquiries in the United States.

Whatever might have been said about the soundness of these proposals at the time they were made—and there is much that could have been said—their validity is clearly open to question today. The shortage of the past few years has passed; capacity on this continent is now slightly in excess of demand and projected capacity through to 1960 is well in excess of estimated growth in demand.

There is no need for government intervention or assistance; the matter can be safely left to private enterprise. Left alone, individual producers will appraise the market and will prepare to meet it. Our only danger is that the abnormal relation between supply and demand in 1947 will be applied to a totally different situation in 1954 or 1955. If that should happen—if there were government-financed or government-promoted mills built to meet a shortage that does not exist—we could easily repeat the mistakes of the 1920's and 1930's and find ourselves with an artificially-created state of over-capacity.

And I do not think I need to go into the history of the 1920's and 1930's with this committee.

I know the newsprint producers of Canada will welcome any sound commercial venture that decides to enter the business of meeting the expanding needs of the world for newsprint. But I suggest we look with suspicion on any proposal to promote a newsprint mill because someone has discovered a newsprint "shortage" that does not in fact exist.

I might mention another problem connected with newsprint trade with the U.S., which surprisingly raises a question of the tariff. "Standard newsprint" is admitted to the U.S. duty free, but the inclusion of the word "standard" makes it necessary for the U.S. Tariff Board to define standards and, under American practice, the definitions are based on the quality and specifications of newsprint existing when the Tariff Act was passed in 1930. Developments in the last 24 years in the publishing industry have called for improved paper until today the tariff standards leave no further room for improvement in quality. They may also prevent the manufacturers from applying new mechanical and chemical discoveries and new techniques for conserving wood resources which have developed since 1930. It may well be that the competition for advertising with magazines, radio and television will compel newspaper publishers to adopt new formats and new devices in their newspapers. And this might well call for a different kind of newsprint. It is likely that present tariff definitions of

"standard newsprint" would prevent this, and even today it is making impossible the experimentation that such developments would require. I am thinking of colour in newspapers, and so on. However, this problem is probably one for American publishers and American government authorities, rather than for Canadians.

In pulps, the prospects are somewhat different than for newsprint.

Without reading the whole of this, I can summarize. With the great growth of pulp production in the United States, Canada, while it has maintained its tonnage totals and slightly increased them, has really done so by taking away that business from Scandinavian exporters, and we are likely in the pulp business, I think, to be a marginal supplier of pulps to the United States, with all that that implies, with either a feast or a famine. This leads one to the point that I think we ought to perhaps seek ways to use increasing quantities of these pulps at home.

Hon. Mr. EULER: Why can they not produce more newsprint in the United States?

Mr. FOWLER: I think the short answer to that is that they don't want to.

Hon. Mr. BAIRD: In other words, if they subsidize—if the government lends the money they still would not have the pulp—the raw material.

Mr. FOWLER: They would have great difficulty in getting pulp. Pulp is not something that you can keep in storage for a great length of time, it is something to be used. It is perfectly true that the Americans have made enormous strides in reversing their profligate tree use. As we did, they cut down forests most lavishly, but they have turned around and now have a fine forestry policy. All members of the industry in the United States may not agree with it, some think it should be more in private hands, and that sort of thing, but they have gone a long way.

Hon. Mr. BAIRD: In other words, they will have to rely on the foreign market for the greater portion of their newsprint needs?

Mr. FOWLER: I think so, and the natural market for them is Canada.

Another digression, but an interesting one, is that the big trees are being overcut very fast in the United States. Even though there is a total fibre growth, apparently within their annual use and loss. That there is likely to a big shift away from the big timbers into a fabricated form of building materials, and that means a larger call on the small trees, and we in Canada have the reserve supply of small trees in North American forest asset picture.

Hon. Mr. McKEEN: There is usually a big enough spread between newsprint and the fine papers, is there not?

Mr. FOWLER: It is more expensive to make finer papers, but speaking now from memory, the figures, as I remember, are \$126 base price per ton on newsprint, and the cost of fine papers range \$160 up to \$225 and beyond.

Hon. Mr. McKEEN: Then there is not much danger of their ever stepping heavily into newsprint?

Mr. FOWLER: I do not think so. Except the situation arises, as I say, from these congressional investigations. The United States congressional investigation is quite an experience, I have been through two or three of them. Actually, I admire much of the work these committees do, but in newsprint particularly it is the raw material that all the publishers use in the daily papers, and if a political man wants to get on the front page of every north American paper he only needs to say something startling about newsprint.

Of course the reason for that deviation between these two commodity groups is the existence of tariffs.

The CHAIRMAN: Perhaps we should allow Mr. Fowler to finish his brief, and then we can question him.

Mr. FOWLER: I am mentioning this matter of cost of newsprint and the picture in the marginal supply of pulp. Now just a word about the supply of Canadian newsprint to the United Kingdom.

The United Kingdom is the second largest export market for Canadian newsprint. Its post-war history has been a discouraging one. From a pre-war average level of 347,000 tons and, in 1945, 214,000, Canadian exports fell to a mere 13,500 tons in 1950. This latter figure was made up of little more than token shipments, designed to keep the trade channels open. By 1953, the volume had been built back up to about 175,000 tons and within recent weeks, the British Treasury has approved the annual import of 50,000 additional tons from Canada—of which 25,000 tons will be shipped in 1954.

By next fall, newsprint will be the only commodity still rationed in the U.K. Despite several small relaxations of control, British newspapers are still severely curtailed in size. Before the war, they averaged about 20 pages a day but now are still only at 8 pages. This again is a matter for decision by the importing country but it is to be hoped that this last wartime control will soon disappear. It is questionable if controls can be successfully and fairly maintained on one commodity when all others are freed from control. Apart from these administrative problems, there may be another reason why the restrictions on newsprint in the U.K. will have to be removed. The British economy has made an amazing recovery; it has improved its productive capacity and (as we have in Canada) has caught up with demand and eliminated post-war shortages of consumer goods. During the period of shortage there was perhaps little need for advertising to dispose of available production. But as supply has improved, one commodity after another has passed from control and from wartime "pooling" and standardization. There is no longer one standard government-defined grade of petrol; chocolates are once more sold under individual brand names; consumer goods are no longer so scarce that the entire production can be sold without selling effort or advertising. It may well turn out that the need to maintain a high level of domestic production and consumer demand will compel an early removal of British newsprint rationing. Some part of the extra demand can be expected to be required from Canada.

A High-Cost Economy:

In conclusion, I would like to suggest to the committee some general ideas which must be regarded as personal and, by their nature, tentative. As a nation dependent to a major degree on exports, we find ourselves encountering difficulties in competing in world markets; certainly we are facing problems which have not been familiar in recent years. The stock explanation is that we have become a high-cost economy; that we have "priced ourselves out of the market". How valid is this excuse?

The answer is probably not to be found by looking at any single factor; such as high taxes or high labour rates. No doubt both have a bearing on the problem and both could if they increased materially from present levels seriously impede Canadian producers from competing in world markets. But these matters are relative. Undoubtedly our costs are high relative to pre-war or pre-inflation periods. Such rising costs and prices were inevitable during years when all factors of production—labour and capital—were fully employed, when there were sellers' markets and shortages. Moreover, being dependent on imports for about one-fifth of our gross national product we could only resist the movement of world prices within narrow limits, unless we had been prepared to take a real cut in living standards. But there is no evidence to suggest that our post-war inflation has been severe relative to that in other countries and that, relative to our competitors, we are a high cost economy.

On the contrary, nearly everyone would agree that our inflationary pressures have been well handled. Much the same conclusion applies to productivity; we have had a better-than-average investment program and there is nothing to suggest that it has been unwisely made or has caused us to fall behind others in productivity. So also with our taxation levels, which are inflationary or become inflationary when taxes are passed on in the prices of our goods; but again relatively Canada is not out of line with other countries.

This is not to say we have done a perfect job. Perhaps we have raised our living standards, our real incomes, too rapidly—including the leisure of a young, rapidly expanding country. Undoubtedly we have sacrificed some efficiency and thus have lower productivity than we would have had if we had not gone through a period when full demand for our production was assured. Possibly we should have squeezed our welfare program a bit to make room for defence spending, instead of expanding both together. But relative to other countries—both our competitors and our markets—the claim that we have become unduly high in our costs is not borne out by the facts.

If the stock answer is not valid, what then is the explanation for our current problems in international trade? In some industries there may have been over-expansion, although this does not seem to be a general condition. In the pulp and paper industry it does not seem to have occurred. Some industries may have acquired markets under shortage conditions in which they cannot now compete with foreign industries returning to traditional markets in which they have special advantages of favourable location or currency relations.

We supplied some markets which were unnatural to Canada, for transportation reasons and the like. Such factors may provide a partial explanation of our current problem.

But there may be another important factor to take into account. There seems to be a change in the climate of international trade. The post-war shortages are over; supply conditions for many commodities throughout the world have improved with the expansion of productive capacity, not only in Canada but also in all producing countries. There are now surpluses to sell. With higher power to produce, more goods can be made; and with expanded buying power more goods can be bought and consumed. This adds up to the possibility of a substantial increase in real standards of living throughout the world. And that is surely a good thing.

But for Canadian traders to get their share of the new business they must recognize that conditions are not the same as they have been for the last eight years. The rules of the game have changed. We now have something to sell and must resist the habits of inertia that have grown up during the post-war years. We can no longer expect the buyers to come to us. We must go to them, and be prepared to adapt ourselves to their needs, as to product design, methods of distribution and terms of financing. This, incidentally, is what we expect foreign sellers to do in our market. We must be ready to accept small orders and to find new buyers.

I am personally confident that, when Canadian exporters have adapted themselves to the changed climate of the international market-place, they will succeed in getting their share of its business.

Hon. Mr. EULER: Mr. Chairman, may I ask Mr. Fowler a question? Before the war, while there was not very heavy competition in the newsprint from the Scandinavian countries, did not that slight competition have a considerable effect on the price that you could get for your newsprint; and is that the case now, or in your opinion will it likely be the case?

Mr. FOWLER: I was not with the industry at that time, but I have heard about it and I think it is undoubtedly a fact that the constant slide in newsprint prices was at least partly due to the Scandinavian offerings. We have one of our men in Finland at the moment, and as far as I can make out inflation in that country has been considerably higher than ours. In 1951 when demand was very high, the Scandinavian countries followed the policy of taking what the market would bear, and prices skyrocketed. As the market price went up of course there were demands for higher labour rates and general costs increased. Now they are stuck with very high costs, as a result of these special inflationary conditions. I believe the answer to your question is "No, that kind of danger is unlikely."

Hon. Mr. EULER: As far as their newsprint is concerned, it goes into the United States free?

Mr. FOWLER: Yes, on newsprint.

Hon. Mr. EULER: One further question: Senator Howard and I happened to be in New Zealand some years ago, and we noticed with a great deal of interest that they had planted, I think, spruce—

Mr. FOWLER: California pine.

Hon. Mr. EULER: They had planted about 60,000 acres, and at that time the trees had grown to a considerable size. Apparently they grow rapidly in that climate. I notice by the newspapers some time ago that these trees were now being cut, and that they had established a newsprint plant in that country.

Mr. FOWLER: It is actually the fact that one is being built there at the moment. It may interest you to know that one of the Canadian newsprint companies is providing a substantial amount of the engineering—

Hon. Mr. EULER: The Abitibi Company.

Mr. FOWLER: —with no ownership interest at all. Undoubtedly there will be newsprint production there which will take a good portion of the present markets of Australia, New Zealand and the Southern Pacific. I personally regard that as something like what I said about the southern states; the raw material is there, it is a sound commercial venture, transportation is much less, and all in all a very good thing it is. One thing is this, that Australia is growing very rapidly, New Zealand quite rapidly also and they have been severely held down in their newsprint consumption, as in Britain, so that I personally believe that, while there may be some slight reduction in usage of newsprint from Canada by Australia and New Zealand, it has already been severely curtailed there from pre-war levels, and I do not think it will go much lower, but once they get more they will use more.

Hon. Mr. EULER: Would you say that they could supply their own demands?

Mr. FOWLER: No, I do not think so. I do not think their forests will allow them to supply all their potential demands in the future.

The CHAIRMAN: Do you find a tendency for other countries to establish pulp and paper mills owing to the shortages that exist in those countries?— In other words, is there a tendency to establish in those countries uneconomic industries?

Mr. FOWLER: There are some things going on throughout the world such as you suggest. There are some suggestions making it seem as if it were possible to manufacture newsprint and pulps anywhere. I think there are some cases where mills are being stimulated in countries which have not got raw materials or the power to do it. As soon as they are established it will lead to demand for tariff protection and will end up with a loss to the Canadian market and with very high cost supplies to the people that depend on those mills.

Hon. Mr. HOWARD: Mr. Chairman, I want to congratulate Mr. Fowler on his presentation here this morning. He has given the finest treatise on the question that I have heard up to date. Now, I would like to ask Mr. Fowler this question. Do you definitely consider that production in Canada now is in line with the regrowth of our forests, and that the saving from this and that is equal to what you are cutting?

Mr. FOWLER: We are satisfied as to that. I did mention the point that we have not final and complete inventories, but the information we have now would indicate that. Five years ago we were worried, but the information we now have has led us to believe that Canada is living within the annual increment and that the consumption by pulp and paper companies, lumber companies, fuel wood, fire, and disease, is in line with the regrowth. I do not think this situation applies over all areas in Canada, but I think the record of living within one's annual income is better on the pulp and paper held limits than perhaps other places in Canada, because these mills have expensive mills that have to be kept going.

Hon. Mr. HOWARD: I have another question to ask Mr. Fowler, and that is, do you quote exactly the same price for your export business as you do for your local consumption, your Canadian or American business, or do you change it according to the situation?

Mr. FOWLER: I am not in the merchandising end of the industry so I am reporting what I believe the individual companies do. I think their export price is generally based on the equivalent North American price that they quote, although there are charges for ocean freight and ocean packing involved, but I think it is a one-price structure generally speaking throughout the world. One other thing I should mention, if I can just take a second—I forgot the effect of the exchange rate as between Canada and the United States.

Hon. Mr. HOWARD: Yes, we know about that.

Mr. FOWLER: That has been quite a serious item to us because we do have to sell for American dollars in the American market and it simply means if there was a difference of 3 per cent, that is just \$3 or \$4 less Canadian money that you get for your product.

Hon. Mr. HOWARD: So when the American dollar again goes higher than our money you will be in clover?

Mr. FOWLER: We will be much better off.

Hon. Mr. EULER: And if it goes lower, why don't you raise your prices?

Mr. FOWLER: There seems to be a limit to that.

Hon. Mr. HOWARD: Have you any idea what percentage of the pulp and paper industry is owned by United States capital?

Mr. FOWLER: No, I have not, sir.

Hon. Mr. HOWARD: Do you think that that situation has a good effect on the relationship which exists between Canada and the United States?

Mr. FOWLER: I do not think it has a bad effect. I think it is one of the good ties that binds our countries together.

Hon. Mr. LAMBERT: Excluding, of course, the *Chicago Tribune*.

Mr. FOWLER: They are a couple of good members of ours. With all due respect to you, Senator Lambert, they have two very fine mills indeed in Canada.

Hon. Mr. LAMBERT: You mentioned a figure of 450,000 tons increase in output in the next couple of years. Would a large percentage of that be composed of this country's production? You mentioned the continent as a whole.

Mr. FOWLER: Yes, a good deal of it is in this country, probably not 80 per cent, because it includes the new Bowater's Mills in Tennessee, there is one in Northern Ontario and one in British Columbia and other potentials beyond that in Canada.

Hon. Mr. TURGEON: When I ask this question I am thinking of the new trade treaty with Japan. Does your industry look forward to trade with Japan with any great expectations?

Mr. FOWLER: I have not studied that agreement very carefully. Individual companies in the industry sell a good deal of dissolving pulp to Japan. We have sold some newsprint but the dissolving pulp is the main export from mainly the west coast. I certainly would like to see more flow of trade between our countries. I think the problems connected with Japanese trade and Japanese economy are enough to stagger you when you look at them, what with their population and lack of raw material, so I would like to see us expand that business, but as I said, I have not studied the impact of this treaty.

The CHAIRMAN: Well, I am sure, Mr. Fowler, that you have the thanks of every senator here for the fine presentation you gave us. You gave us more information about the pulp and paper industry than we have heard in this room for many a day.

Mr. FOWLER: I am very glad to come.

Whereupon the Committee adjourned.

